

**Summary of
January 11, 2008
Technical Conference**

On December 28, 2007, the Postal Service filed its annual compliance report for FY2007. On January 11, 2008 at 2:00 p.m., in the Commission's hearing room, a technical conference was held to help interested parties to evaluate changes made by the Postal Service to the Periodicals cost models in its report. The conference focused on the costs for Periodicals flats, especially container and bundle costs [as adopted by Commission in Docket No. R2006-1](#).

The panel representing the Postal Service consisted of Ms. Mayes, Mr. Walia, and Mr. Loetscher. Ms. Mayes explained that the Postal Service had a very short time after FY2007 data became available in which to prepare its compliance filing, and that its general approach was to follow the Commission's methodologies from Docket No. R2006-1, updating only for new inputs or equipment changes.

For Periodicals, however, it found that it could not simply plug in new inputs because the data did not flow through the models. Therefore, the Postal Service reformatted the models to make the process easier, and in so doing, made a few changes it felt were needed to make the models cohesive.

Mr. Loetscher described the most significant changes that were made, in decreasing order of impact on the results. The first change he described is to the bundle downflow densities. Since the development these densities, more of the incoming secondary sorting has been shifted to being done in the plant, rather than the delivery unit. The old bundle downflows do not reflect this, but because the piece flows are consistent with current operations, the bundle flows are tied to the piece flows. The effect of this change is to reduce the modeled cost of 5-digit bundles.

The second change is to the small parcel bundle sorter (SPBS) and Automated Package Processing System (APPS) productivities. The intent of the adjustment is to separate piece, bundle, and container costs. The SPBS operation has some overlap in these costs, such as dumping costs that are associated with pallets, and keying costs that are associated with bundles. Since the SPBS Management Operating Data

System (MODS) productivities reflect a combination of these activities, an adjustment is made to remove hours related to container costs (leaving bundle-related costs). The work in the operation is typically 1/7 dumping, 3/7 sweeping, and 3/7 keying. In Docket No. R2006-1, a factor of 3/7 was used to develop the productivities as a way of excluding sweeping. The Postal Service's filing uses a factor of 6/7. This reduces bundle productivity in the model which increases the modeled cost of the SPBS operation.

The third adjustment is made to the modeling of 5-digit sack handling. As a result of the sack reduction program, 5-digit sacks that used to be exclusively made up of 5-digit bundles now contain carrier route bundles, as well. This changes the flow; where all of the bundles in a (pure) 5-digit sack would go directly to the carrier, now the (merged) sacks are dumped and the bundles are sorted. The effect of this change is to increase the modeled costs of 5-digit bundles in 5-digit sacks.

The fourth and final adjustment described by Mr. Loetscher is to change an assumption about the handling of 5-digit pallets. Previously, a certain percentage of 5-digit pallets were assumed to be opened at the SCF. According to Mr. Loetscher, however, a 5-digit pallet would need to hold more than 300-500 pieces. Because as few as six pieces can make up a carrier bundle, he believes it would be improbable for a 5-digit pallet to contain exclusively 5-digit bundles and no carrier bundles.

Under the old assumption, some 5-digit pallets would be opened at the sectional center facility (SCF) and the bundles sorted on the SPBS. The adjusted assumption is that all 5-digit pallets are not opened at the SCF, but are cross-docked to the delivery unit instead. The effect of the changed assumption is to decrease the mail processing cost of 5-digit mail.

After Mr. Loetscher's explanation, the floor was opened to questions from the attendees.

Mr. Strauss (American Business Media) asked why the change to the treatment of 5-digit sacks (the third adjustment) would not affect the cost of handling carrier bundles. The response was that the processing of carrier bundles is the same if it is in

a pure 5-digit sack or a merged sack. In response to follow up, Mr. Loetscher explained that the cost of sorting merged 5-digit sacks is assigned to 5-digit sacks.

Ms. Willette (Postal Regulatory Commission (PRC)) asked why the adjustment to the bundle densities (first adjustment) was not made in the Docket No. R2006-1 filing. The Postal Service responded that perhaps the short time between Docket Nos. R2005-1 and R2006-1 precluded the adjustment. In response to follow up, the Postal Service said that it had not quantified the effects of each of the adjustments individually.

Mr. Klingenberg (PRC) asked about the inconsistency between the manual bundle productivities for Periodicals and Standard Mail. Mr. Loetscher explained that some of the hours are removed for Periodicals as part of the effort to separate piece, bundle, and container costs. Such separation is not necessary for the development of Standard Mail costs, so the overall (unmodified) productivity is used.

Mr. Stralberg (Time Warner) asked about the unit cost differences in the Postal Service's summary of worksharing discounts. In response the Postal Service stated that it used the direct piece mail processing costs (excluding the allied piece mail processing costs) plus the Periodicals flats delivery costs for non-carrier route pieces, and Standard Enhanced Carrier Route (ECR) flats delivery costs for carrier route pieces. Mr. Loetscher stated that he believed that this was consistent with the Commission's methodology. In response to follow up, Ms. Mayes reiterated that the worksharing summary was prepared by another group, and that the panel was only involved in mail processing costs.

Mr. Stralberg briefly described several points of a written preliminary discussion of the adjustments. He provided copies to participants and the Commission has published it on its website.

A brief discussion of the cost effects of each adjustment followed. The Postal Service agreed to produce and provide spreadsheets in time for the next technical conference that would come very close to replicating the calculations and results of updating PRC-LR-14 (from Docket No. R2006-1) with FY2007 data both with adjustments and without adjustments.